

# Piaggio Group

## First Quarter 2015 Financial Results

### CORPORATE PARTICIPANTS

ROBERTO COLANINNO – CHIEF EXECUTIVE OFFICER

GABRIELE GALLI –GENERAL FINANCE MANAGER

RAFFAELE LUPOTTO –HEAD OF INVESTOR RELATIONS

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### MANAGEMENT DISCUSSION

#### **Raffaele Lupotto – Head of Investor Relations**

Hello. Good afternoon, everybody. Thank you all for joining us today to analyze Piaggio Group First Quarter 2015 Financial Results.

Today's conference call will be held by Mr. Roberto Colaninno, Piaggio Group President and Chief Executive Officer; and by Mr. Gabriele Galli, Piaggio Group General Finance Manager.

During the call, we will use the presentation, you can download it from our website under the link Investors. And I remind you that during the call, we may use forward-looking statements that are subject to risks that can cause actual results to be materially different.

And now, I would like to hand over the conference call to Mr. Gabriele Galli..

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#### **Gabriele Galli - General Finance Manager**

Good afternoon to everybody. So, I will start from slide three. The year had a weak start in all the key reference markets. In Europe, the two-wheeler ended up flat, the scooter was down by 6%, and the bikes were up by 6%. The total was around 0% growth compared to last year. I remind you that last year, the first quarter was good with a growth of 13% versus 2013.

In Asia Pacific, the demand was soft. Indonesia was down double-digit. Vietnam stuck at previous year level.

In India, the three-wheeler demand was flat. The four-wheeler kept slumping down double digit. The momentum for two-wheeler was strong.

Starting from Western country, despite the scooter market weakness, the market performance has shown to be resilient. We confirmed our undisputed leadership in the European scooter market. Our premium vehicle such as MP3 posted double-digit volume and revenue growth. Guzzi volume went up significantly also after the launch of new V7. Spare parts and accessories were on the rise. And we went on with the expansion of mid-sized bikes in Latin America while North America proved to be a little bit difficult

especially in terms of market. The average price for vehicle went up as in the past quarters, thanks to a positive mix and thanks to the firm price policy. As a final result, Western countries proved to be up in terms of revenues, a little bit, with the UK, Italy, Spain and Germany having a good performance, and France being on a negative side.

Moving to Asia Pacific, the performance was mainly sustained by mix improvement, while the scenario as we said before, was a little bit weak. Vietnam was growing both in volume and revenues for the third consecutive quarter. Asia Pacific excluding the Vietnam had a slight volume decrease. But in terms of revenues, especially helped by the positive forex and the mix improvement, we had an increase. The momentum for premium segment penetration has been confirmed, and Vespa was up double-digit across the region. Also, in terms of price across the region, we had an increase also excluding the very positive forex effect. As a final result, the revenues were up double-digit, 17%. and we were nearly flat excluding the forex. Everything helped by a strong performance in Vietnam, Malaysia and China.

Moving to slide number four, India was affected by switch of model. We introduced a new vehicle, and so we have to destock a little bit of the network from the old vehicle. The three- wheeler, four-wheeler overall market share was up compared to previous year. And the performance in terms of cargo was very good. We grew by around 6% in a market which was nearly flat. Vespa sales went on substantially flat. In terms of pricing also in India including the forex, we had an increase compared to previous year. As a final result, the revenues were up by around 20% compared to previous years and nearly flat excluding the forex effect.

The total financial numbers, our Net Sales were up by around 9%, plus 0.3% at constant forex. The significant increase of EBITDA plus 12% with a ratio to sales of around 12 percentage point, which is the best first quarter performance to-date, with a positive net profit increasing a little bit versus previous year.

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The gross margin was growing by around €5 million with a slight decrease in terms of percentage, also linked by the forex. So revenues were up, gross margin was up, but of course, since we have some purchase in remimbi, for example, the percentage was a little bit down. The cash OpEx were higher compared to previous year mainly due to forex effect. Without the forex, we are pretty flat, while the D&A increased by around €5 million compared to first quarter 2014.

In terms of financial expenses, we benefited from 2014 initiative, the new bond and the new revolving credit facility reducing the overall amount by around €1 million.

In terms of CapEx, we accelerated to €21 million, which is €5 million plus compared to previous year.

In terms of net debt, it is increased by around €75 million compared to the initial period of 2015. So, the total amount is around €28 million higher compared to same period last year.

Moving to slide number five, we can have a look at the profit and loss. As we said before, the net sales were up by around €25 million, which is 9.1%, around 0.3% at constant forex. The gross margin is up by €5 million, plus 5.9% around 0.6% at constant forex.

The EBITDA was up by around €3.9 million plus 12% plus 4% at constant forex. As we said before, the depreciation increased by around €5 million, leading to an EBITDA of €10.8 million versus €11.7 million previous year, minus €0.9 million.

Financial expenses had the reduction of around €1.1 million, leading to an income before taxes slightly positive versus 2014, €2 million versus €1.8 million, and to a Net Income positive by €0.1 million versus 2014 ; €1.2 million versus €1.1 million.

As we said before, the financial position was a little bit worse compared to last year. And of course, due to the seasonality, worse by around €75 million compared to the beginning of the day, standing at the €568.4 million versus €492.8 million.

Moving to slide number six, we can have a look at the volume. The volume were slightly down compared to 2014, minus 2.4%. We had a decrease of 4.9% in India, also due to the new model introduction. We had an increase of around 1.6 thousands units of commercial vehicle in Western Countries. We had an increase of around 1,000 Vespas in India. We had nearly the same volume in Asia Pacific two-wheeler and a reduction of around 6% in Western Countries two wheeler.

Just to comment, this number, as we said before, last year, the market was up by 13% and last year, during the first months of the year, we launched Mp3 and Vespa. So, this is the reason of the comparison – negative comparison in Western Countries compared to last year. On top of that, we are destocking both in Europe and especially in U.S.

Moving to slide number seven, so turnover. The reduction in terms of volume by 2.4% resulted in increase of revenues by 9.1% and through a level of plus 0.3% excluding forex, showing that in terms of mix, and in terms of pricing, we went up, I mean, performing well.

Looking at a different business, India CV was up by 18.6%. Excluding forex would have been 1.8% decrease, which is better than minus 4.9% in terms of volume. Western countries CV went up by 30.6%, and this is lower than the increase in volume because we increased very much the export in LatAm and in some country of Africa.

The two wheeler in India went up by 43%, would have been 18.6% at current forex.

Vietnam and Asia Pacific went up by 17.1%, would have been minus 0.2% at constant forex. And Europe had an increase of 0.2% versus a decrease of volume by minus 6.1% showing that the policy we adopted on pricing; then, the action we made on mix pushing especially in Mp3 and Vespa; and the action we took on spare parts in that factory had a positive impact.

Moving to slide number eight, you can have a look at the same turnover split by product. So scooters were up by 5.3%, motorbikes went down by minus 4.6%. The launch of new model we made in Moto Guzzi and Aprilia just had a limited positive impact, because they were launched in March. And we will have the full impact in the second quarter. The commercial vehicle went up by 21.6%. And the spare parts and accessories were up 13.5%.

Moving to slide number nine, you can have a look at the EBITDA evolution. Last year, we were at a €32.5 million, 11.7%. We had an increase in net sales, bringing at level of gross margin an improvement of €8.4 million, then a slight reduction in percentage, bringing a reduction in gross margin of around €2.2 million. So the combined effect of the two items is around €6.2 million positive, while, as we say before, the OpEx were slightly higher by €2.3 million, especially due to forex effect. The total EBITDA was 36.3em, 12% the ratio on revenues.

Moving to slide number 10. We have the evolution in net result. Last year we're positive by €1.1 million. We had an increase in EBITDA by €3.9 million, an increase in depreciation offsetting the increase in EBITDA by €4.8 million, an improvement in the financial expenses by €1.1 million especially linked to the reduction of cost of debt after the operation we made last year for the issuance of new bond and renegotiation of revolving credit facilities, and then a limited increase in taxes that lead into a net result of €1.2 million.

Moving to slide number 11, we can have a look at the evolution of the net financial position. So we started at €492 million versus €475 million. We had an improvement in operating cash flow by around €11 million

from €17 million to €28 million. We had an absorption of €73 million of working capital versus €64.1 million last year, and this is partially due also to forex as you can imagine. We had CapEx, higher, compared to 2014 by around the €5 million, €21 million versus €16 million. And then, with we had all the other elements, the changes, which we call change in equity and other. So conversion reserve, and so on and so forth, which had an increase of around €9.1 million versus €2.4 million last year, leading to a financial position of €568 million versus €541 million last year.

Moving to the balance sheet, we can have a look at the different components. So the trade receivable were pretty aligned to last year same period, €115 million versus €118 million. The inventory were up by around €37 million. Around €17 million of that is due to the forex, and the remaining €20 million is due to performance. As you can notice, we started with an higher inventory by €23 million – sorry – by €25 million compared to 2013 end of year. And so we are positively recovering them. In terms of debt, we had debt versus commercial debt. We had a total position of €404 million versus €359, and also a part of it is due to conversion of different currencies. And then we had other assets and liabilities higher by €35 million compared to last year. Most of that is linked to deferred tax assets issued at the end of 2014, some VAT receivable in the process of recovery, and then some other limited item. As a total result, the working capital was €57.5 million versus €33.7 million last year.

Moving to tangible and intangible, the total position this year was €1.03 billion versus €963 million last year, partially due to the CapEx, but partially due to the forex, because as you can imagine, all our investment in India and Vietnam have been revaluated with the revaluation of dollar and related currencies. The financial investments are aligned to last year, and the provision are a bit higher following the initial value of the 2015 amounting to €76 million.

The total net invested capital was €992 million versus €934 million last year financed with the debt at €568 million versus €541 million last year, and equity higher by around €30 million, €423 million versus €393 million. In terms of ratio, net debt to equity, we are improving a little bit from 1.38 times last year to 1.34 times this year.

So now we are ready for questions..

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**Raffaele Lupotto – Head of Investor Relations**

Yes and i remind you as usual, maximum three questions per person, please. Thank you very much.

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**QUESTION AND ANSWER SECTION**

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**Ms. Monica Bosio – Banca IMI**

Thank you very much. Good afternoon, everybody. I would ask just three questions.

The first is on the European markets and Italian one. In April, the Italian – the two wheeler Italian market was up by 6%, but mostly due to the motorcycle segment. The scooter segment rose just by 0.5%, the first positive sign in the, since the beginning of the year. Can you please give us an update as for the rest of the

European countries in April, and what kind of volumes growth do you project for the EMEA zone? This is the first question.

The second one is on the EBITDA at a consensus level. I had a look at the website, and I've seen that the consensus is now in terms of EBITDA at €184 million. Maybe the range is between €180 million, €184 million. I was wondering if given the strong results, so far announced, if you see some upside risk on the upside versus this level.

And the third question is on the e-bike segment. You will launch your new e-bike. I was wondering if you can give us some kind of volumes projection, let's say, for 2015 which will be negligible going forward. Thank you very much.

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**Gabriele Galli - General Finance Manager**

Okay. So starting from the first question, the market, also in Europe, was positive because, I mean, after four months, so for the number that we have today which are not definitive, but mostly definitive. The market was up by around 2.9%, I'm adding up Germany, Spain, France, UK, Belgium and Holland, while I mean there was a similar effect in scooter versus bikes. So, the scooters were down by 1%, while the bikes were up by 6%. So I think that this kind of growth can be also forecasted for the rest of the year. I remember that – I mean the first quarter last year was absolutely strong. So, the fact that today, we have a plus 3% versus first quarter last year, which was the strongest of the year with a flat 13% versus 2013, is, let's say, a good signal. Also in terms of market share, we are performing in April. I saw that you had to look at the Italian market if the market share was good. So we are pretty positive about Europe and about the number we put in our strategic plan last year.

In terms of EBITDA, we are aligned with the consensus that you mentioned. So anything between €180 million, €184 million is absolutely feasible. It will depend also by the forex, because as you can imagine, the forex can have a positive impact on EBITDA. Demand, we are talking about are aligned with dollar at today's level, so 1.14. Then I mean, if the dollar goes to 1.05 or 1.25, of course, I mean, there would be a slight impact.

In terms of e-bike, we confirmed the launch in August, September. The volumes for this year are important because for us, it's a new business. So, we have the opportunity to enlarge our addressable customer base. But in terms of impact on the P&L, as you can imagine, they are negligible. So I mean, we are talking about some few thousand of units.

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**Alberto Villa – Intermonte SIM**

Good afternoon. Three questions from my side as well. I wondering if you can comment a little bit on the mixed performance of the Asian markets, and regarding the underlying trends [for these markets. Do you expect Indonesia to remain weak and there are any specific reasons for the performance in the first quarter might or might not be present in the remainder of the year, and same possibly for the other main markets, Vietnam, in particular.

Second question is on the product pipeline that you mentioned, and that caused the CapEx to be up compared to last year. I was wondering if you can elaborate a little bit on what kind of products we can expect to be launched, in which segment and geographies in the coming months.

And the final question is on the D&A, if the level of D&A we have seen in the first quarter is something that we can expect to be on a rather normalized base to be replicating the next two quarters. Thank you

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**Gabriele Galli - General Finance Manager**

Okay. So starting from the D&A question. As you can see, I mean, last year, we started very low in terms of D&A in the first quarter. Then, there was a progressive increase, and the fourth quarter was much higher compared to the first one. This year, of course, we start with the depreciation line of – slightly increase compared to the fourth quarter of last year, and then we expect to be pretty constant or slightly increasing. So the comparison versus 2014 is particularly tough in the first quarter, because we are comparing the low level of first quarter with the normal level during 2015, while I mean the comparison probably will become better quarter-after-quarter.

In terms of our product pipeline, we've launched the two new Aprilia, which are the RSV4 and Tuono, with a completely revised engine, which are giving us some satisfaction in terms of, let's say, during this month. We are in the process of launching two new Moto Guzzi in the custom area. The main will be Audace and Eldorado, and they will be launched during May and June. Then we will be launching the new e-bike in September. And then, we expect a couple of new scooter in September, and at the end of the year.

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**Alberto Villa – Intermonte SIM**

This is all Europe, I guess, mostly?

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**Gabriele Galli - General Finance Manager**

No, no, no. No. I mean, all the motorbikes are in Europe and the U.S., and also some country of Asia because we sell especially in Japan. And the scooter will be worldwide. And scooter will be worldwide. Maybe with the bike we will start in the U.S. for the next year because the homologation isn't, I mean, plain vanilla. But our product range is let's say, worldwide.

In terms of performance of Asian market, Indonesia is weaker and probably will stay weak in the next month while we have a very positive experience in Thailand. Thailand is performing very well. Taiwan is performing very well and also Malaysia. On top of that, we have – I mean, the first moves in China, so we started selling directly in China. We are talking about some hundreds units per month, but this is a good start and especially the potential for the future if something changes in terms of regulation may be very important. Vietnam was good during the first quarter. As you remember, last year, first quarter and second quarter were not so strong, so we expect a significant increase also during the second quarter. And then a good performance, a bit higher but not excluding so much in third quarter and fourth quarter, which were good also last year, especially the fourth quarter.

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**Filippo Prini – Kepkler Cheuvreux**

Good afternoon. Two questions from my side. First one, could you give us some indication of how much of the increase of the D&A that happened in the first quarter and even for the year come from the capitalization of research costs? And the second, if you can provide us with a level of the factoring and the reverse factoring. Thank you.

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**Gabriele Galli - General Finance Manager**

Okay. So, the depreciation is increased by around €4.8 million and €3.4 million is coming from the R&D while €1.4 million is coming from the material – normal CapEx investments, so production plant. Then you were saying about – asking about the level of factoring, the reverse factoring. They are aligned to the level we had last year. Actually, we have been able to increase especially a little bit the direct factoring. With the direct factoring, we have been, let's say, improving our performance by around €16 million from €82.1 million to around €98 million. This is – you can notice because I mean despite the strong forex movement, which would have increased the accounts receivable especially in India and Vietnam and U.S., we have been able to reduce them by around €3 million, thanks to this increase in direct factoring.

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**Nicolo Storer – Mediobanca**

Yes, sir. Good afternoon to everybody. I have three questions for you. The first one is related to Asia. Could you please elaborate a little bit more on the performance per different countries? Meaning that how do we get to the minus 1% in volumes considering that you said that Vietnam was good and that Vietnam is by far the most relevant country in the zone? The second question is related to the cash OpEx trend. If I'm not wrong, expenses were up adjusted 2% year-on-year, which is quite a small increase in my view. I was wondering if you plan to have higher costs going forward. The last question is related to the sound price mix which you reported in Europe. If you could elaborate a little bit more on how this effect could be split between pricing in both scooters and motorbikes and mix, so the different trends in Vespa scooters and motorbikes? Thank you.

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**Gabriele Galli - General Finance Manager**

Well, the Cash Opex as we said before, is very much aligned especially if we exclude the forex would be very, very aligned. In our plan, we have, I mean, the idea of increasing the OpEx a little bit in the remaining parts of the year. But we are talking about some discretionary expenses. So if something is not going as we think, we'd be able to keep at this current level.

Then going through the performance of different countries, I can tell you that in the Asia-Pacific region, as we said before, Indonesia didn't perform very well, while the best performance this quarter was for Malaysia. So we can say that one more or less offset the other, while Vietnam was up by around 2%.

The third question was about the price mix in Europe. So, in Europe, first of all, we increased the percentage of spares and accessories. And so despite the volume reduction, the total volume of spares and accessories was up double digit by around 11%, 12%. On top of that, we had a good mix in terms of inside the scooter category because the MP3 was up double digit while the total number of scooter decreased a little bit. We had a price increase at the beginning of the year of around three percentage point depending on the country by the average was – this number. And then, I mean, also a good number of motorbikes sold versus vehicle which you can imagine are the good – at higher price compared to this quarter. And so, this really helped us in keeping the total net sales flat. So, again, price mix, mix within scooter and motorbikes and spare parts and accessories. These are the basic driver.

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**Nicolo Storer – Mediobanca**

And the very last questions. Could we assume motorbikes volume to be up year-on-year?

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**Gabriele Galli - General Finance Manager**

I would say, yes, because the launch has been done at the end of March. And so now, we have a full year of – for reaching the performance. So I'd say that the number of motorbikes will be increasing in the next nine months. And these are the internal targets that we gave to the commercial people.

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**Mr. Raffaele Lupotto – Head of Investor Relations**

Okay. Thank you. So, time is up. So the last answer, draws the call to an end. In any case, if you need to have more info, as usual, you can call me later on or during the weekend. And thank you very much for attending the conference call. Bye.